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ABSTRACT

This guidebook, designed for the use of SCORE volunteers, is intended to familiarize new counselors with SCORE operations and to provide reference material to assist counselors in handling cases. Chapters are: (1) SCORE Purposes and Objectives; (II-A-1) Approach to Counseling; (II-A-2) Organization of the Business--legal forms, management or internal organization, succession; (II-A-3) Sources of Information--government agencies, trade associations, colleges and universities, public libraries, publications, credit agencies, people; (II-A-4) Production, Procurement and Marketing; (II-A-5) Sources of Capital--equity capital, trade creditors and customers, commercial banks, Small Business Administration, commercial finance companies; (II-A-6) Financial Records and Controls; (II-A-7) Regulations, Taxes and Insurance; (II-A-8) Case Reports; (II-B-1) Going into Business--nature of the problem, analysis of personal factors, capital requirements, getting started, buying an existing business, franchising; (II-B-2) A Small Retailer; (II-B-3) A Small Manufacturer; (II-B-4) Service Organizations; (III) SCORE-SBA-Workshops; (IV) Management-Ability Evaluations; and (V) How SCORE Is Organized and Operates. An appendix lists relevant forms and pamphlets and addresses from which to obtain most of them. (KM)

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SERVICE CORPS OF RETIRED EXECUTIVES

COUNSELOR'S GUIDEBOOK

AC014116

PREFACE

ACTION and the Small Business Administration are pleased to join in making available to the SCORE volunteer this latest edition of the counselor's guidebook. We are confident that every SCORE volunteer will find it worthwhile. There are sections in this guidebook on organization of a business, sources of information in the government and elsewhere, procurement, and financial information not previously included. All who worked on this deserve our thanks. We commend this to your use and suggest you share examples of ways in which it is being put into practice. This is a first attempt at producing a more complete guidebook and with all first attempts it too can be improved.

As this guidebook is put to use by the SCORE counselor, we welcome your suggestions so that later editions may be improved. Meanwhile, we wish each volunteer every possible success in his counseling efforts. Almost on a daily basis, new reports come to our attention confirming the outstanding work you are doing for small business and for your respective communities.

JOSEPH H. BLATCHFORD
Director
ACTION

THOMAS KLEPPE
Administrator
Small Business Administration

A word of appreciation for the time and effort, attention to detail, and imagination which went into the preparation of this Guidebook must go to Cecelia Stanton, chairman of the National SCORE subcommittee assigned this responsibility. Miss Stanton has pioneered in many SCORE activities. She helped pioneer and initiate SCORE and ACE programs in Milwaukee in 1967. She continues to serve as chairman of a group which began with five counselors in the Milwaukee area and now includes 80 counselors from throughout the state.

Members of the National SCORE Manual Sub-Committee were: Cecelia T. Stanton, chairman, of Milwaukee, Wisconsin; Alan D. Crowley of Xenia, Ohio; Julius Grossman of Boston, Massachusetts; Peter Lakers of Columbus, Nebraska; Louis Poirier of Harrisburg, Pennsylvania; Joseph Tram of New Orleans, Louisiana; Bill Worthington of of Tucson, Arizona; Earl E. Knuth, Business and Industrial Specialist, Small Business Administration of Milwaukee; Lee Maxwell of Deland, Florida; Frank Sando of San Antonio, Texas; Henry M. Spack of San Marcos, California; John M. Caughman of Greenville, South Carolina; Roy M. Johnson of Thiensville, Wisconsin; E. C. Dees of Brunswick, Georgia. Editors of the original guidebook were William S. Woodman of Troy, Michigan and Athel Denham of Detroit.

March 1972

FOREWORD

About this Guide Book

The purpose of this guide book is to assist counselors in two ways:

1. Familiarize new counselors with SCORE operations.
2. Provide reference material to assist counselors in handling cases, particularly those with problem-areas unrelated to the counselor's personal background.

Obviously, it cannot provide answers to all of the problems which may be encountered in SCORE counseling work. It is hoped it may serve to point up some of the more common problems and to suggest a basis for their solution. In view of the relatively high degree of business sophistication of SCORE counselors, the general business terms and procedures have not been explained in detail, although such explanation may be necessary in dealing with some SCORE clients.

A bibliography of forms and pamphlets appears in the appendix.

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CHAPTER I

SCORE Purposes and Objectives

The purpose of SCORE is to help the small business owner solve problems and become a better manager of his business. In essence, SCORE's service is a businessman to businessman advisory relationship.

Acceptance to membership signifies that SCORE regards the retired executive as highly qualified to render this needed service to small business and to not-for-profit organizations requiring business counseling.

SCORE recognizes that no individual counselor-member can be or should be expected to help solve every problem of every type of small business. It has therefore constantly sought to maintain and broaden its memberships to include retired executives with as varied a background as possible.

Familiarity with management problems is essential, of course. The vast majority (90%) of small business failures, for example, is directly traceable to poor or uninformed management. SCORE is proud of the fact that wherever its Chapters have functioned broadly and effectively, the toll of small business failures has been reduced.

The need for the kind of help SCORE members can render is an enormous one. Each year 400,000 small firms are discontinued and are 'replaced' by another 400,000 or more. Of the latter, over 100,000 will fail in their first year in business.

Rarely does one trace the failure of a small firm to a lack of technical know-how in its field. It is in the management area of his business that the small businessman is weakest. It is the objective of SCORE to assist the owner/manager in identifying his basic management problems and their causes, to develop a balanced approach to finance, production and marketing, to make him aware of his own weaknesses and to advise him on how he may achieve more efficient and profitable operation for his business.

Thus, SCORE counseling is far from confined to small firms who are already in trouble. Even successful firms frequently need advice on long term planning, budgeting, marketing and product research, etc.

It is important to note however that SCORE's approach does not conflict with the interests of professional consultants. In many cases, counseling by a SCORE member may include advising the businessman to seek help from bankers, lawyers, accountants or other professional consultants for specific assistance.

CHAPTER II-A-1

Approach to Counseling

a. Arrangements:

As soon as practicable after receipt of a counseling assignment, the counselor should contact the client to make arrangements for a mutually satisfactory time and place to meet. If the client has an established place of business, it is usually desirable to meet there; if not, a meeting may be arranged at the SCORE office or at some other suitable place, including the home of the client or the counselor.

Some of the points to be covered in preliminary arrangements include:

i. Be sure that the owner or person primarily responsible for the operation of the business will be available; it is not desirable to discuss problems with an employee or other person without participation of the owner.

ii. Request that current financial statements or other accounting records be available for review—it may be necessary to have these obtained from an outside bookkeeping service.

iii. If an SBA loan or loan guarantee is involved, review the loan file for pertinent information, including the current status of the loan.

b. Background:

Discuss the nature, functions and limitations of SCORE. Be sure that client understands that the purpose of SCORE is to provide counseling and suggestions and not to perform staff functions such as maintaining accounting records.

It is usually desirable that the counselor advise the client of his own background and experience, stating frankly those areas in which he is not proficient, with the statement that a counselor with other capabilities may be called in, if needed.

Inquire into the personal background of the client, including his training and experience, as a basis for judging his capabilities to operate the business successfully and to understand and carry out suggestions.

c. Discussion and investigation:

Attempt to make the client feel at ease and ask him to describe his business and its problems, as he sees them. Counselor should not interrupt this discussion except as necessary to avoid straying from the subject and to clarify points of importance. We will often find that clients do not understand common business terminology, or that certain terms have a different meaning to them than we ascribe to them. Such problems of semantics should be clarified.

Most recent financial statements should be reviewed and results compared with normal performance in like businesses. (See "Sources of information" and "Financial records and controls".)

In the case of a retail or manufacturing business, it is generally desirable to inspect the facilities, noting appearance, condition and arrangement of facilities, including quantities and condition of inventories.

d. Identification of problems.

The problems indicated by the counselor's investigation should be specifically identified and discussed in detail with the client. If client does not agree with these conclusions, the differences of opinion should be resolved, if possible.

e. Recommendations.

Suggestions, including goals for the business and procedures for their attainment should be discussed with the client. It is desirable that client make notes of suggestions, but counselor should also plan to submit a written report in which they will be summarized. Recommendations should be of the specific "how to" type. (See exhibits I to III following).

f. Follow-up:

If additional counseling is indicated specific arrangements should be made as to the next contact. If this is dependent on certain accomplishments, be sure that they are specified and that client is committed to call counselor when they have been accomplished.

Exhibits I through III were distributed to delegates to the National SCORE Conference at Seattle, Washington, October, 1971, by Robert T. Woodworth, Professor of Organization and Management, University of Washington, in his talk on the subject, "Are You Really Giving Help?"

EXHIBIT I

Conditions under which help is helpful.

1. The person to be helped feels he has a problem.
2. He *wants* help.

3. He sees *you* as helpful.
4. You can help.
5. He can carry out your advice
   a. Technically
   b. Emotionally
6. Design help which is appropriate.
7. Listening
   a. How is the counselor being heard?
   b. Is the counselor hearing correctly?

Exhibit II

Feedback criteria.

1. Is it really *intended to help* the recipient?
2. Is it *descriptive* of what the receiver is doing and of the effects he is having rather than judgmental? (Separate the individual from the action)
3. Is it *specific* rather than general, with good, clear, and preferably recent *examples*?
4. Is it timed when the receiver wants to hear it?
5. Can he do something about it?

EXHIBIT III

Guidelines for giving and receiving help. Note or tabulate instances in which the person you are observing in the "helping role:"

1. Suggests problems facts, solutions, actions, etc.	Vs.	*Asks* client for clarification of *his* perceptions, facts, solutions, etc.
2. Interprets client's feelings, motivations, inadequacies, etc.	Vs.	*Seeks to understand* client's feelings, ideas, etc.
3. *Conveys doubts* about client's ability to cope with difficulty.	Vs.	Encourages and supports client in using his abilities.

CHAPTER II-A-2

Organization of the Business

a. Legal Forms.

A great majority of the small businesses encountered by SCORE counselors are proprietorships, operated by one man, with possibly some assistance from members of his family. However, one of the most common questions propounded by small business clients is "Should I incorporate?" or "Should I take in a partner?" To assist in resolving these questions some of the pros and cons of each type of organization are summarized as follows:

i. The proprietorship is the most simple form of business organization, requiring no legal action beyond registration of the name of the business with the county clerk, or comparable local official. It is also subject to the least governmental controls, and frequently does not even require a license unless the activities involved are of a technical nature such as plumbing and electrical work, or activities involving food handling or health considerations. On the other hand, the business entity terminates with the death of the proprietor, and there is unlimited liability on the proprietor for the obligations of the business. Business profits are taxable to the proprietor, whether or not they are drawn out of the business, at rates in the higher brackets, giving consideration to income which may be derived from other sources.

ii. Partnerships have many of the same characteristics as the proprietorship, except that two or more people are involved, and each partner is fully liable for the debts of the business and for acts of other partners. The partnership pays no tax directly, but profits are distributed (for tax purposes) to the partners and are included in their personal returns, whether or not distributed in cash. Anyone contemplating entering into a partnership should consult a competent attorney and have him draft a partnership agreement setting forth all pertinent facts, but particularly capital contribution, operational responsibilities and division of profits.

iii. The corporation is more complex and generally requires the services of an attorney to prepare a charter and by-laws. It is also generally subject to more governmental regulations, but provides limited liability (generally limited to the amount invested) and greater flexibility in financing. The corporation is is also subject to tax on its income, (whether or not distributed), with dividend distributions also subject to personal tax in the hands of the stockholder. Any sale of corporate

stock should be handled under the direction of an attorney, to assure compliance with state and federal statutes.

b. Management or internal organization

The basic responsibility of management is to plan and establish objectives and policies to promote successful operations and future growth. Each function should be clearly defined and the responsibility therefore specifically defined. (In a one-man business the responsibility necessarily rests on that one person, but that only increases the need for recognition of the various requirements.) These functions generally are classified into the following activities:

i. Production, including technical know-how and procurement of materials and personnel.

ii. Marketing – including sales organization and sales promotion programs.

iii. Financial controls and planning, including responsibilities for recordkeeping, meeting capital requirements and evaluation of results.

c. Succession:

If a business is to survive over an extended period of time, it is vital that management make adequate plans for succession upon death or retirement. The many variations of circumstances preclude any specific procedures, but it is a point which should be discussed in some detail with clients to which it may be a problem.

CHAPTER II-A-3

Sources of Information

This section of the manual relates to sources of information for use both by SCORE counselors and their clients to obtain a wide range of general and technical data on many different types of business activities which can be very helpful in the analysis of individual business entities.

a. Government agencies:

Publications available through the SBA are listed on forms 115A and 115B. Those on Form 115A are generally available in the SBA District offices, while those on 115B may be purchased from The Department of Commerce or the Superintendent of Documents. Many of these include financial statistics which can be utilized as a measure of the specific activities under consideration.

Other government agencies, most of which have offices in major cities, have much data available on population, trade, employment, production, etc. These include:

Department of Commerce	Federal Trade Commission
Department of Agriculture	Department of Health,
Department of Treasury	Education & Welfare
Department of Interior	Internal Revenue Service

Federal Reserve System

In addition, local agencies such as City Assessor or the City Planning Commission have much information available on population patterns, land use, etc., which can be helpful in site location or market analysis.

b. Trade associations:

There are many national and local trade associations covering a wide range of businesses, which compile information about their respective industries for the benefit of their members. A catalogue of the major associations is published periodically by the Department of Commerce. Some of these organizations may be reluctant to provide information to non-members, while others will make it available for any legitimate purpose, sometimes for a nominal fee.

Chambers of Commerce (national, state and local) are closely related to the trade associations and are generally glad to be helpful to new or prospective businessmen.

c. Colleges and Universities:

These institutions generally have business research departments and have great stores of information, as well as many knowledgeable people who can be helpful in obtaining information on specific subjects.

d. Public libraries:

Most of the larger libraries have business sections in which much information is available, in addition to the more technical data in the other sections.

Some of the publications which may be of general use are listed as follows:

Standard & Poor's Corporation manual which provides financial data on all listed companies, with index classifications by industry. Moody's has similar publications.

Thomas Register—listing sources of supply for a wide range of products.

Yearbook of the National Retail Merchants' Association giving performance data on department stores and a wide range of retail stores.

Manual of Performance Ratios by Troy—published by Prentice-Hall.

Operating and financial statistics published by Robert Morris Associates and Dun and Bradstreet.

e. Publications:

Periodicals such as Fortune provide much information on business (Fortune's 500 published each year in June or July).

Many business organizations such as National Cash Register Company, Bank of America, and Whirlpool Corporation have business information available for the asking.

f. Credit agencies:

Credit bureaus and rating services such as Dun & Bradstreet are a good source of certain types of data, including statistics on business failures.

g. People:

One of the best sources of information is people who have knowledge of the particular business or industry, including bankers, accountants, lawyers and other business men. Suppliers and representatives of equipment manufacturers can often provide information on specific types of business.

County extension agents and members of business development committees can be helpful.

CHAPTER II-A-4

Production, Procurement and Marketing

The approach to production, procurement and marketing function varies so widely in various types of activity that overall discussion seems to be inappropriate, other than to emphasize their importance to the success of any business and the vital need for skilful and continuing attention to their effective performance.

Section II-B, page 22, gives separate consideration to questions which should be explored in relation to these functions in retailing, manufacturing and service organizations.

Government contracts as a source of business can be highly profitable or highly disastrous depending on the nature of the contract, type of business, and other conditions. Clients seeking the government procurement dollar should seek advice and counsel from the experts in the field in the Procurement Assistance Division of the Small Business Administration or from those members of SCORE who have expertise in this highly specialized field.

SBA and SCORE can develop courses regarding the type of forms and what is involved in pre-production, quality assurance, zero defects, accounting methods, production, packaging, and related subjects. In any part of the country where the Defense Contract Administration Services Regions (DCASR) are located, they have the resources to work with SBA and SCORE and small businesses that might have procurement capabilities to offer. Developing such programs helps make the small businessman a knowledgeable individual in the field of government procurement.

CHAPTER II-A-5

Sources of Capital

One of the most common problems encountered from SCORE counseling is inadequate capital, either because the business was undercapitalized from its inception, because capital has been dissipated through operating losses, or because available capital has been frozen in non-liquid assets. Whatever the reason the first question put to the SCORE counselor, and frequently the main reason for seeking SCORE counseling, is "How can we get more money?"

a. Equity capital:

If the business was undercapitalized in the beginning or has grown to the extent that additional capital is necessary, and if the current equity debt ratio is low[1:3 is considered minimal], then the obvious remedy is to put more equity into the business, because additional debt, even if it is available, will not provide the long term answer.

The preferable source of additional equity capital is the present owners. If this is not possible then other investors should be sought, as partners or stockholders. In some cases this can be arranged without loss of control by the original owners, which is usually a desired objective. However, if it is evident that other investors will not be attracted without loss of control this should not be resisted too strongly – it is better to own 40% of a prosperous company than 80% of a sick one.

In seeking additional capital a prospectus should be prepared setting forth the financial position of the business, its operating results for three years, or since inception, and projections of future operations, together with other pertinent information about the business and its prospects. Offerings of stock should only be made under guidance of an attorney, not only to avoid legal problems, but because attorneys are frequently in a position to assist in identifying prospective investors. Public offerings of stock through a broker are [illegible] generally practical for the small company because of the cost involved.

b. Trade creditors and customers:

Once credit has been established, trade creditors are an almost automatic source of short term capital. However, there are definite limits on this source, and it may prove to be expensive money if failure to pay bills when due results in loss of cash discounts which would otherwise be available. [Loss of a 2% discount for the sake of delaying payment 20 days is equal to 36% annual interest]. Failure to keep accounts with creditors reasonably current may also result in loss of good sources of supply.

In some circumstances customers will make advance payment

on their order to enable a small but reliable supplier to finance production of the material. If this can be arranged, it is vital that such advance not be used for other purposes than production of the related order.

c. Commercial banks:

This is the most common source of borrowed capital, and generally the most satisfactory.

i. Banks generally prefer to make loans for short terms (2 to 6 months) either unsecured, or secured by current assets or accounts receivable.

ii. Longer term loans may be obtained to finance capital expenditures, and are usually secured by a lien on property and equipment.

Inasmuch as most states have usury laws which restrict interest rates which may be charged to individuals, it is frequently easier to borrow through a corporation, which may be charged a higher rate.

In approaching a banker for a loan it is important to have all facts and figures readily available, including the purpose for which the loan is to be used and a projection of cash flow from which it is to be liquidated. It is also important to establish and maintain good relations with the banker prior to seeking a loan.

d. Small Business Administration:

If a loan cannot be secured through ordinary commercial channels it may be possible to obtain funds through one of the SBA financial assistance programs, which include direct loans in limited amounts, as well as guarantee of a portion (up to 90%) of bank loans. The procedures for making application for SBA loans or guarantees are outlined in the folder OPI-18 cited in the appendix. In some cases it may be desirable for the SCORE counselor to provide guidance to the client in the preparation of the loan application and in presenting the facts to the banker or the SBA loan officer, but he should not put himself in the position of negotiating the loan.

e. Commercial finance companies:

If amounts involved are sufficient to be of interest to these organizations, they may be considered a source of borrowing but they are usually more expensive than commercial banks in addition to placing greater restrictions on the activities of the borrower.

CHAPTER II-A-6

Financial Records and Controls

a. Need:

The need for adequate financial records seems obvious to those with business background, but is frequently not recognized in the small business community. In addition to the reporting requirements of various government agencies, which are dependent upon good records, they are even more essential in making management decisions, obtaining financing, and evaluating the performance of the business. Suitable recordkeeping procedures should be instituted from the inception of the business and maintained on a current basis at all times.

b. Establishment and maintenance of records:

Although recordkeeping need not be a complex or mysterious procedure, it is desirable that it be designed specifically to meet the needs of the business. This may be done by a SCORE counselor with accounting background, or by an outside accountant. It is generally preferable that the records be kept on the premises if this can be arranged, either by the proprietor or his wife, or by an employee (full or part time) who has some background in this area.

If the books are to be maintained by an outside bookkeeping service, such agency should be selected with great care (many of them do not do the job adequately) and there should be a definite understanding as to timing and content of reports. If the businessman is unfamiliar with financial requirements, it may be desirable for the SCORE counselor to participate in making these arrangements.

c. Types of records and reports:

Generally the accounts should be maintained on the accrual basis and the general ledger accounts should reflect the assets and liabilities of the business as well as the revenues and expenses. Cash basis records may be adequate for a few types of business which do not involve significant amounts of inventories or accounts receivable and payable.

In some cases it may be desirable to report revenues on the cash basis for tax purposes, while using the accrual basis for management reports. This may be accomplished by setting up a "Reserve for uncollected revenues" on the balance sheet and adjusting the accrual basis revenues for the increase or decrease in outstanding receivables during the period.

Revenues should be classified by the various types of activities from which they are derived and expenses should reflect both objective and functional classifications, in such a manner as to facili-

tate determination of the profitability of each major line of product or activity.

A common record deficiency is the failure to provide for compensation to the proprietor or members of his family, resulting in an unrealistic profit showing for the business. Expenses should include a charge (whether or not paid in cash) for services of the proprietor, at least equal to the cost of hiring others to perform these functions.

Minimum reporting procedures should include monthly statements of profit and loss and a balance sheet at least quarterly, including a reconcilement of net worth from the beginning to the end of the period. Many businessmen find it helpful to their understanding of the business to have the results from operations extended to show the disposition of cash and increase or decrease in cash balances during the period.

d. Detailed supporting records:

The following types of information should be available in some form, depending upon the nature and volume of the related transactions:

1. Sales, both cash and charge, classified by line of product or by branch or location. This may be accomplished by a daily summary of cash register readings or by numerical files of invoice copies with monthly totals.
2. Cash receipts and cash disbursements and bank balances. Receipt copies or copies of deposit tickets may be used as the original receipts record and check copies or stubs as the basic disbursement record, with postings directly to the general ledger accounts.
3. Accounts receivable from customers – using a ledger or copies of unpaid invoices.
4. Accounts payable to vendors – may be kept in ledger form or simply in a file of unpaid invoices, which will be totaled and summarized monthly.
5. Inventories of materials and/or merchandise on hand. (This is most commonly accomplished by periodic physical tabulations and pricing).
6. Salaries and wages by functions and by individual employees, together with taxes and other amounts withheld.

e. Cost records:

Manufacturing operations and certain types of service activities

should keep cost records to determine the profitability of various jobs or activities and to serve as a basis for pricing and submitting bids or estimates to prospective customers. A formula for determination of selling price, based on cost data, is shown on the accompanying sheet of "Ratios and Formulae."

The most common types of cost records are individual job costs and standard costs, the latter being applicable principally to repetitive operations. The cost records, of whatever type, should provide an analysis of deviations from normal. Burden may be applied in various ways, including percentage of labor, rate per labor hour or rate per unit of production, the important factor being that it be sufficient to absorb actual burden costs (those relating to manufacture or production) over the attained volume of activity.

f. Budgets and projections:

Budgets are as essential to good management as a road map is to the traveler in strange territory, but their effectiveness is dependent upon the interest and continuing attention of top management personnel. Budgets are usually prepared for periods of 12 to 18 months ahead, and are broken down by months or quarters, depending on seasonal fluctuations of the business. Inflationary factors should be considered in the preparation of the budget, and it must be flexible to reflect changed or unforeseen circumstances, with provisions for periodic revisions in the light of observed changes.

Operating projections are generally based on past experience, adjusted for anticipated changes in conditions, but must be realistic in relation to the available market, organization and production facilities. The principal elements of the operating budget, to be projected in appropriate detail, are:

1. Sales or revenues.
2. Cost of material and labor (recognizing scrap and efficiency factors).
3. Operating expenses, classified by functions and as to fixed and variable, to be incurred at the anticipated level of activity.
4. Operating profit or loss.

Cash flow projections are useful in planning required borrowings and debt repayments, to avoid liquidity problems, and to plan for investment of temporarily excess funds. This projection is based on the operating budget adjusted for:

1. Non-cash items (such as depreciation).
2. Changes in outstanding accounts receivable and payable.
3. Changes in inventories.
4. Capital outlay for new or added facilities.
5. Debt retirement and additional borrowings.
6. Capital contributions or withdrawals by principals or stockholders.

g. Use of records for management control and decisions:

The effectiveness of records for management purposes can be greatly improved by preparation of some data beyond the bare statements, including the following:

1. Continuing comparisons of operating results with budget estimates and with prior periods, with realistic assessment of reasons for unfavorable variations.
2. Compare certain key ratios with industry norms: (see accompanying "ratios and formulae" and Section II-A-3—Sources of information.
   - i. Percentage of profit on sales (Fortune 500 for 1970—3.9%).
   - ii. Annual rate of return on equity (Fortune 500 for 1970—9.5%).
   - iii. Rate of inventory turn-over-annual basis (Will vary widely by type of business).
   - iv. Gross mark-up on sales.
   - v. Break-even point.
   - vi. Ratio of current assets to current liabilities (2:1).
   - vii. Equity ratio.
   - viii. Accounts receivable collection period.
   - ix. Sales per dollar of fixed assets.

Other ratios may be pertinent in certain types of business.

h. Ratios and formulae:

1. Operating ratios:

a. Profit on sales $= \frac{\text{Net profit}}{\text{Net sales}}$

b. Return on equity $= \frac{\text{Net profit}}{\text{Average net equity}}$

c. Gross mark-up $= \frac{\text{Net sales, less cost of sales}}{\text{Net sales}}$

d. Inventory turnover rate = $\frac{\text{Cost of sales}}{\text{Average inventory, at cost}}$

e. Break-even point = $\frac{F/E}{1 - V}$ F/E = Fixed Expenses
V = Variable Expenses
S = Normal Sales Volume

In the usual small retail operation, most expenses other than cost of sales can be considered fixed; therefore a simple means of determining the break-even point is total expenses divided by gross mark-up percentage:

$\frac{\text{Monthly expenses } \$800}{\text{Average gross mark-up } .40} = \$2{,}000 \text{ Monthly Sales}$

2. Balance Sheet Ratios:
   a. Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$
   b. Equity ratio = $\frac{\text{Net worth}}{\text{Total assets}}$
   c. Accounts receivable collection period = $\frac{\text{Outstanding accounts balances x 30}}{\text{Monthly charge sales}}$

   (to be used in conjunction with an aging of accounts receivable)

3. Determination of good will (for use in connection with purchase or sale of a business):

$$G = \frac{E - A \times r}{R}$$

G = Good Will
E = Estimated future annual earnings
A = Fair value of net assets, exclusive of good will
r = Normal industry rate of return (on equity)
R = Capitalization rate of excess earnings

Another approach to determination of good will is the present value of an annuity equal to the excess of earnings over a normal rate of return, for an agreed number of years (probably not more than five).

Determination of selling price to attain desired rate of profit on sales:

$$S = \frac{C}{1 - (R + r)}$$

C Cost to manufacture or produce

R Percentage mark-up on selling price

r Load factor to cover selling and administrative expenses, expressed in Percentage of selling price.

CHAPTER II-A-7

Regulations, Taxes and Insurance

a. Regulations:

Practically all businesses are subject to some degree of regulation by government, the nature and extent of such regulations depending upon the type of business and the provisions of local statutues.

The minimum regulation is the requirement that the business be registered. Proprietorships and partnerships are generally registered with the Clerk of the county in which they operate. Corporations are generally registered with an agency of the state in which they are incorporated, and if they operate in other states may be required to "quality" in those states as well. The filing of the partnership agreement and the corporate articles will usually be handled by the attorney by whom they were drawn, but registration of a proprietorship is so simple that it may be handled directly by the proprietor.

Many types of business require a local license, and it is well to check with the local City Clerk or Department of Licensing as to whether or not a license is required for the particular business involved. Local health departments generally license businesses selling food, either in stores or restaurants, and businesses processing food for sale may require state or federal licensing, or both.

State agencies license activities such as bars and liquor stores, nursing homes, nursery schools and public campgrounds, primarily to insure health safeguards. The federal food and drug administration imposes certain standards for testing and labeling foods and medicines traded in inter-state commerce. The Interstate Commerce Commission also imposes regulations on business over which they have jurisdiction. Determination of whether or not a business is engaged in interstate commerce is sometimes difficult, and should be made by a competent attorney.

Employment practices are subject to regulation by both federal (Department of Labor) and state agencies, as to minimum wages, hiring practices, working conditions, hours of work and workmen's compensation. Requirements should be checked with the agencies involved or with an attorney.

b. Taxes:

Generally, the business entity is responsible for determining and reporting its liability for taxes, as well as collecting and remitting taxes from its customers and employees.

1. Taxes on income (federal, state and local) are almost universal.

The Internal Revenue Service has published a "Tax Guide

for Small Business" which will be helpful. Income of a proprietorship, and each partner's share of partnership income is taxable to the individuals at rates ranging from 14% to 70% (rates in the various brackets are shown on the instructions furnished with Form 1040). Self employed individuals, including partners, are required to estimate their tax liability in advance and make quarterly payments so that at least 80% of their tax is paid by January 15th of the ensuing year. Net income of corporations is taxable at 22% on the first $25,000 and at 48% on amounts over $25,000. In addition, amounts distributed as corporate dividends are taxable in the hands of the recipients.

ii. Ad valorum taxes on real and personal property are assessed by local units of government, at rates fixed by their legislative bodies, based on assessed values fixed by the local assessor. A business is usually required to file a statement of personal property (equipment and inventories) which is subject to review and adjustment by the assessor.

iii. Most states and many local units of government levy a sales tax on sales of tangible property at retail, and on some services, such as hotels and motels. There are various exemptions from the sales tax, such as sales to non-profit organizations and sales for industrial processing, as well as certain drugs. The seller is generally responsible for determination of the taxable status of each sale, and for collection and remittance of the tax. Each business subject to the sales tax is required to obtain a sales tax license and to collect and remit sales taxes currently, usually each month.

Social security taxes (FICA) are payable on all wages, (in excess of $50.00 quarterly) and must be withheld by the employer. The present rate (1971) is 5.2% on the first $7,800 of compensation, which is matched by the employer. All employers must obtain an "Employer's Identification Number" from the Internal Revenue Service and use this number when reporting withholdings of social security and income taxes. If social security and income taxes withheld from employees exceeds $100 monthly they must be deposited with a bank by the 15th of the following month. A quarterly return on Form 941 is required in the month following the end of each calendar quarter, showing taxes withheld, as well as the employer's contribution, accompanied by payment of amounts not predeposited. The Internal Revenue Service can provide tables

showing income and social security taxes to be deducted from earnings at various levels and with varying exemptions.

Any taxes collected by a business entity, such as social security, income or sales taxes, are held in a fiduciary capacity and failure to remit them as required may result in fraud penalties against the individuals responsible.

iv. Excise taxes are imposed on some products and services, including automobiles and parts, gasoline and oil, liquor, telephone services, and airline fares. Companies producing these items or providing the services are required to collect the taxes and remit them to the government at specified intervals. Determination of these taxes, in some instances, becomes highly technical and should be referred to a competent accountant or attorney. However, few small businesses will be subject to these requirements inasmuch as substantially all such items are produced by the major corporations.

c. Insurance protection:

Most businesses find it desirable to shield their assets and earnings from uncontrollable risks and unexpected hazards by insurance. The advice of a reliable insurance agent should be sought as to the types and amount of coverage appropriate in individual circumstances. Beware of agents who try to sell coverage in excess of potential loss.

Following are some of the types of coverage which may be appropriate in many businesses:

i. Fidelity bonds on employees handling money or other valuables.
ii. Burglary and robbery.
iii. Public liability.
iv. Workmen's compensation (generally required by statute).
v. Fire and windstorm on buildings and contents.
vi. Business interruption.
vii. Key man life insurance (premiums not deductible for tax purposes if employer is the beneficiary).

CHAPTER II-A-8

Case Reports

A report on each counseling case is to be prepared and submitted to the SCORE office on SBA Form 639, within a reasonable time after each interview, but not more than ten days thereafter. These forms are supplied with each case assignment and additional forms are available in the SCORE office. It is preferable that reports be typed, but hand-written reports are acceptable if typing is not practical.

The general content of reports is outlined as follows:

a. Background:

1. Description of the business, as to nature, size and location.
2. Form of organization (proprietorship, partnership or corporation) and when organized.
3. Training and experience of management and appraisal of capability.
4. Availability of financial records, by whom maintained.
5. Summary of financial data, including principal assets, indebtedness, equity capital and recent operating results.
6. Plans and prospects for the future, including possible expansion or diversification.

b. Problems:

A concise statement of problems outlined by the client and/or identified by the counselor should be included in each report. The following are examples of some of the more common problems encountered:

1. Inadequate equity capital.
2. Inadequate financial records, or failure to utilize available data.
3. Poor location or facilities.
4. Need for improved production efficiency.
5. Ineffective merchandising or sales promotion program.
6. Overstocking and inadequate inventory control.

c. Recommendations:

Recommendations should be summarized in the same order as the problems are stated, generally covering the most urgent matters first, or indicating suggested priorities. Recommendations need not include detailed instructions how to do something, even though such details have been covered in the interview, but they should state clearly what is to be done and its objective. Reference should be made to forms or memoranda which have been left with client at time of interview.

d. Submission of information to client:

In most cases the conclusions and recommendations of the counselor should be submitted to the client in writing. This may be accomplished in various ways, including the following:

1. Copy of SCORE report sent directly to client by counselor with appropriate notation on copy sent to SCORE office.
2. Request that copy of report be sent to client by SCORE office.
3. Separate letter to client, with copy to SCORE office. (This may be appropriate when SCORE report includes information or conclusions inappropriate for submission to client.)
4. Notation on SCORE report that required information was left with client at time of interview and no copy of report is necessary. This approach assumes that comprehensive notes were prepared, either by client or counselor – verbal coverage is not sufficient.

e. Follow-up or closing of case:

If further counseling is to be provided by counselor originally assigned, this should be indicated on Form 639, with approximate date of such follow-up.

In those cases in which services of a counselor with different areas of competence is indicated, this should be clearly stated in the report so that the reassignment may be made, or the counselor may make direct contact with another counselor having such capabilities, and so indicate on the report. In such cases the second counselor will report on his contact with client and indicate closing of the case when appropriate.

When services to the client have been completed, the report should so indicate by marking the "Close Case" block on Form 639.

CHAPTER II-B-1

Going Into Business

a. Nature of the problem:

A substantial portion of the inquiries received by SCORE are from people who are contemplating going into business, and these cases frequently involve special problems not present in counseling the going business, some of which will be discussed in this section. A prospective business person should be informed as soon as possible as to the next scheduled workshop for going into business.

Surprisingly, many of those hoping to go into business have no specific idea of the kind of business they want to go into but have the vague idea that being in business for themselves is a magic carpet which will transport them to wealth and leisure. In such cases the first step is to give them some of the facts of life as to the hard work and high risks involved and the relatively modest returns which can normally be expected even from a successful business. SCORE should not take the responsibility of making a specific recommendation of a type of business, but should help them to explore their background and capabilities in order to reach their own conclusions. Many of the people in this group have no technical background or experience in any type of business, nor do they have the required capital. Such people should be advised to gain some experience by working as an employee in some business which appeals to them, and to accumulate some capital before attempting to start their own business.

b. Analysis of personal factors:

Anyone starting their own business should first make a realistic appraisal of their own personal traits. The personal rating scale (SBA Form 593) included in the SBA workshop kit is helpful in such an analysis and covers the following factors:

> Initiative, attitude toward others, leadership, responsibility, organizing ability, industry, decision, sincerity, perseverence and physical energy.

In addition to the foregoing, any business needs technical know-how, that is how to produce the product or service; selling ability in order to market the product or service, and the ability to plan and control the financial aspects of the business. If the person starting the business lacks any one of these three capabilities (and very few possess all three), they should make plans to bring in others who have them, as partners, employees or consultants.

c. Capital requirements:

Inadequate capital is one of the major causes of business failure, most of which could have been avoided by a realistic appraisal of

capital requirements at the outset. The same applies to the frequent urge to expand what has been a successful business.

The procedures for determination of capital requirements are relatively simple but may require substantial research and investigation, which should be performed by the principals in the enterprise, not by the SCORE counselor. They consist of:

1. A detailed list of facilities needed, and their cost, including installation. In most instances, it is desirable to rent rather than buy real estate until the success of the business is reasonably assured and its need clarified.
2. Realistic estimates of working capital needed for inventory, accounts receivable and for operating expenses during the development period until the business can produce sufficient cash flow to become self-sustaining.
3. Unless other sources of income are available the potential businessman must consider his needs for living expenses during the period it will take the business to become profitable. This period may vary from one month to two years depending upon the nature of the business and many other factors.

If adequate capital is not available the SCORE counselor should advise against the project. A general rule to observe is that at least one third of the required capital should be equity. Warning should be given to avoid infraction of the "blue sky" laws in the sale of stock; this should be done only under the guidance of a competent attorney who is familiar with the local statutes.

d. Getting started:

Once the questions of personality, know-how, and capital have been resolved in the affirmative, the new businessman faces the mechanics of getting the business started. This involves many things, some of the most significant of which are:

1. Creating the organization and fulfilling legal requirements of registration. (See Section II-A-2, Organization.)
2. Obtaining necessary licenses and permits. These requirements vary widely depending upon the nature of the business and local statutes. (See Section II-A-7, Regulations, Taxes and Insurance.)
3. Selection of location and acquisition of facilities. This is important in any business but is of particular importance in a retail store or a service business depending heavily on "walk-in" trade. (Sections II-B-2 and 4.)

4. Sales promotion program to acquaint potential customers with products or services available.
5. Recruitment of personnel. It is important that personnel have the skills and characteristics necessary for the business involved, and selection should not be made on the basis of sentiment or family relations. SBA Small Marketers Aid No. 106—"Finding and Hiring the Right Employees" may be helpful.
6. Establishment of records and record keeping procedures. This should be done very early in the program and is of major importance to success. (See Section II-A-6—Financial records and controls.)

e. Buying an existing business:

If an existing business is to be purchased the following factors should be considered:

1. Why is present owner selling? It may be due to adverse economic or community conditions which are beyond the control of the prospective new owner.
2. Has the business been successful and what is the earnings trend? A valid prospective purchaser should have access to accounting records and tax returns from which to judge these points. If such access is refused, it is indicative of a desire to avoid full disclosure of the facts.
3. Does the business have a good reputation in the community? This is highly important and can generally be ascertained by discussions with bankers, other businessmen, including suppliers and organizations such as the Chamber of Commerce.
4. What is a fair price? The price should be based upon the fair value of the physical assets plus a reasonable evaluation of "good will" based on earning capacity. Valuation of the physical assets should take into consideration their condition and suitability for the purpose intended, and the inventory should be carefully screened for obsolete or excess stocks which may not be salable at normal prices. A formula for calculation of good will is included in the "Ratios and Formulae" in Section II-A-6.
5. Legal precautions should be taken against possible undisclosed liabilities which might follow the assets of the business, such as personal loans or tax deficiences.

t. Franchising:

A question frequently asked by those contemplating going into business concerns franchising. While there are many franchisors who are legitimate and offer good opportunities for the franchisee to get into a profitable business, there are also those who are more interested in the initial franchise fee than in the long term success of the business. In any event a franchise business is not a primrose path to fortune, and usually requires plenty of hard work and substantial capital.

The Department of Commerce publishes a booklet "Franchise Company Data" which lists a substantial number of franchisors and pertinent information about their requirements and operations. The introduction to this booklet (which should be available in every SCORE office) sets forth some pertinent rules for evaluating a franchise in advance of making a commitment.

In addition "The Franchise Guide" published by Resource Publications, Inc., P.O. Box 381, Princeton, N.J., contains a wealth of information on this subject.

CHAPTER II-B-2

A Small Retailer

Retail trade, general and specialized, has historically been dominated by the small independent merchant, and even with the growth of the major chains in recent years, the total number of retail outlets, if not the dollar volume, is still predominately "small business." Under these circumstances, it is not surprising that a major segment of the SCORE counseling requests involve retail activities, with a trend toward specialty stores such as pet shops, hobby shops, "mod shops," and party stores. In addition to the problems common to all business, retailers are faced with their own particular types of problems, some of which are covered in the following questions:

a. Management:
   i. Does manager budget his own time?
   ii. Does he run the business or does the business run him?
   iii. What are the owner's weak points? Personnel handling? Self-discipline? Financial? etc.
   iv. Is location sound or is a change indicated? Is there room for expansion?
   v. Does the layout encourage circulation of customers? How about peak periods?
   vi. Is the business being operated 'with a smile'?

b. Procurement:
   i. Are buying plans formulated well in advance, giving consideration to the economic trends in the community served, as well as buying habits of potential customers and over-all budget of volume for the season?
   ii. Have sources of supply been carefully identified and checked for reliability in the areas of quality, price, and timely delivery?
   iii. Is manager in close touch with style trends, both locally and nationally so that he can make informed judgment on what will sell and how much? (This capability is vital in dealing with style merchandise and is more of an art than a science).
   iv. Are receiving procedures adequate to assure receipt of quantities and quality in accordance with purchase orders?
   v. Have plans been made, both as to availability of merchandise and of working capital, for reorder of items which may sell faster than expected?
   vi. Is retailer taking advantage of discounts offered for prompt payment, some of which are substantial in certain trades?

c. Marketing.

Most profitable retail businesses exist and grow because they offer adequate assortments, convenience, service and quality. Rarely is price alone a major factor and the small retailer who tries to sell on price usually winds up as a failure. Price selling should be used primarily to clear out dead or slow moving inventory or to make room for more profitable items.

i. Market potential: Is it growing or declining? What are Community trends?

ii. What is the firm's sales goal? Is there seasonal planning?

iii. Is shop appearance inviting? Externally? Internally?

iv. Is there adequate parking?

v. On what products is turnover low? Is this inventory being cut?

vi. Are special sales items displayed farthest from the entrance?

vii. Are products offered in more than 3 price lines?

viii. How much credit is allowed? What about installment sales and collections?

ix. Are customers credit-checked?

x. Would delivery service be profitable?

xi. Is advertising programmed ahead?

xii. How does advertising budget check with national average?

xiii. Is advertising timed properly?

xiv. Are most effective advertising media being used? Handbills, direct mail, radio, local newspaper, yellow pages?

xv. Are regular customers notified of sales ahead of time? Do signs announce coming sales in stores?

d. Inventory control:

i. Are mark-up and mark-down policies clearly established with a view to obtaining maximum margins consistent with desired rate of turn-over and considering competitive conditions?

ii. Do price tags give required information relative to cost and date of purchase? (This would not apply in fast turn-over situations such as grocery stores or meat markets.)

iii. Is accounting control exercised over inventories, either by costing of individual items, or by the "retail inventory method" whereby a moving percentage of make-up is computed and applied to sales of the respective classes of merchandise?

iv. Are reasonable precautions taken against the rapidly growing losses from theft, both by employees and by customers?

v. Are physical counts taken frequently of various sensitive items subject to seasonal or style influence to permit timely action on mark-downs or special promotional efforts?

vi. Are procedures established to minimize incidence of out-of-stock and accumulation of excess stocks? (These are generally based on the fact that, in most lines, 80% of the sales involve only 20% of the items.)

e. Records:

Retailing is one of the most sophisticated segments of business from the standpoint of availability and use of records and statistics to measure performance.

i. Do accounting records provide information as to sales, costs and expenses by departments or lines, and are these compared with prior periods and with industry norms?

ii. Is statistical information compiled for comparison with industry averages in areas such as inventory turn-over; sales salaries, advertising and occupancy costs in relation to sales; sales per square foot of space and sales by each sales person?

iii. How do earnings on equity capital and on total assets compare with industry average?

CHAPTER II-B-3

A Small Manufacturer

Small manufacturers constitute a substantial portion of the SCORE clientele, and, while most of the general considerations outlined in earlier sections are applicable, there are also some factors which are particularly pertinent in this type of an operation. Some of the questions to be considered in relation to these specialized problems are summarized as follows:

In general small manufacturing firms are specialists. Too often they are run by people with good technical skills but with little management ability. In many cases it has been found desirable to encourage managers of such businesses to take evening business management courses or to share management responsibilities on a broader basis.

a. Management:

What are the owner's weak points? Techniques? Finance? Sales? Personnel handling? Planning ahead? Budgeting his time?

How could operations be strengthened? What about diversification? Who is being trained to take on more responsibilities? Is there room for expansion?

b. Procurement:

i. Are present suppliers performing adequately in the areas of quality, price and delivery?

ii. Is management in touch with the market and price trends through industry publications and contacts with representatives of other suppliers?

iii. Have most economical order quantities been established, giving consideration to usage, lead time, available storage facilities and working capital requirements?

iv. Are make or buy decisions made on a realistic basis, and in light of reliable information? (Many small manufacturers make parts which they could buy more cheaply, due to low quantities or inefficient facilities.)

v. Are receiving procedures established which will assure accuracy of quantities billed and quality in accordance with specifications?

vi. Are relations with suppliers maintained on a satisfactory basis by timely payment of invoices and fair and reasonable settlement of complaints?

c. Marketing:

Is the firm's market shrinking or growing?

Is the market seasonal?

Has the manufacturer checked on availability and cost of floor planning when selling to distributors or dealers?

What about product obsolescence?

What are billing policies and practices?

What about credit to customers? Too much? Too long?

Which advetising media appear best suited to that firm? Trade publications? Circulars and direct mail?

How does advertising budget compare nationally? (usual range ½% to 5%)

What commissions are paid? How do these compare with competition?

What are best channels of distribution? Direct sales (by mail, etc.)? Direct to dealers? Through distributors? Through manufacturers' agents?

d. Inventory control:

i. Are materials and supplies stored in a manner which facilitates movement and provides reasonable protection from deterioration and pilferage?

ii. Do requisition procedures provide for adequate accounting control over inventories and disclosure of excessive usage?

iii. Is adequate attention given to rate of inventory turnover and control or disposition of obsolete or excess stocks. (The rate of turnover will vary in relation to the production cycle and seasonal fluctuations, but generally should be about four times annually.)

e. Production:

Is production flow smooth? Is shop orderly?

Is equipment in good condition? Modern? Well-maintained?

If expansion is planned, how much equipment will be needed? What about more skilled people? Who would train and supervise?

f. Records:

The recordkeeping requirements outlined in Section II-A-6 are applicable to most manufacturing operations, but the following should be given particular attention:

i. Do accounting records and financial statements provide for disclosure of sales and costs by product lines or activities?

ii. Are cost data reliable for the purpose of bids and quotations?

iii. Do cost procedures provide timely disclosure of adverse variances in materials usage, labor productivity, and overhead absorption?

iv. Are billings made promptly upon shipment, and in accordance with purchase orders?

v. Do records reveal extent of utilization of personnel and facilities and are utilization rates satisfactory?

vi. Are rework and warranty costs properly controlled and given appropriate consideration in pricing?

CHAPTER II-B-4

Service Organizations

With the increase in importance of services in our economic system, and the recent increase in unemployment of technically trained people, the formation of new service organizations is growing and the portion of SCORE activities involving service-oriented business is increasing at a more rapid pace. Most of the people going into service businesses have the technical capability to provide the services, but generally they have little or no knowledge of the management functions, even to the extent of asking how to open a bank account.

The classification of service organizations cover a wide range, including automotive and appliance repairs, building and household maintenance, and operation of restaurants, motels, nursing homes, campgrounds, and many others. While the nature of their activities varies widely, their success is largely dependent upon two common factors—the recruitment of capable personnel and a high rate of utilization of personnel and facilities.

The following are some of the more pertinent areas to be explored in dealing with service businesses:

a. Management:
   i. What are the firm's goals? 5 years ahead? 1 year ahead?
   ii. How able is the principal as a manager? Is he too specialized in outlook? Is the location sound? Is there room for expansion?
   iii. If expansion is planned, what about additional technicians? Who would train them? How?
   iv. Does manager budget his own time?
   v. Is business keeping up with new techniques? How?
   vi. What are the firm's immediate competitors doing better?
   vii. Are service hours out of line? What are peak periods?
b. Procurement:
   i. Sources and prices of material and supplies are generally fixed by circumstances, and we need only determine whether or not purchases are being made in the most economical quantities and include only those items having a high level of usage.
   ii. The procurement of personnel is more critical and it is desirable to determine:
      a. Are hiring procedures adequate to afford reasonable assurance of capabilities to perform the functions required? (In some cases this involves a substantial degree of technical skill.)
      b. Are employees given a reasonable amount of training to enable them to perform in a satisfactory manner?

c. Is work supervised in a manner which will contribute to satisfactory performance, both from the standpoint of the customer and the employer?

c. Marketing:

In general, service firms are of three types: Those in which the customer visits the place of business (beauty shops, barbers, laundries, etc.); those in which the firm's representatives visit the customer (janitorial services, plumbers, etc.) and those in which there is a combination of both (TV repair, secretarial services, etc.). Where the customer visits the place of business, many of the same questions apply as in retailing. In addition, the following are worth considering, among others:

i. How good is the market potential? Where is it?

ii. How large an area is being served? Could it be expanded?

iii. Are exterior signs well-located and inviting?

iv. Are public and work areas well separated?

v. What are the best advertising media? Yellow pages, radio, TV, newspapers, direct mail? Are media being used effectively? Is money being wasted?

vi. What about calling cards? Circulars? Cooperative advertising?

vii. Are advantages of better service stressed?

viii. Would introductory offer to new customer pay?

d. Inventory control:

In most service businesses inventory control is not a problem. However, in those offering repair service for automobiles, appliances, etc., the parts inventory may well be subject to the following investigations:

i. Are parts carried in stock limited to those most commonly required, with those used less frequently, or those involving higher cost, purchased as required. (Major manufacturers maintain parts distribution centers in most metropolitan areas, so parts can usually be obtained in a relatively short time.)

ii. Are parts in stock adequately protected from deterioration and pilferage?

iii. Is stock reviewed periodically for slow moving and excess items, and appropriate action taken to eliminate or minimize those disclosed?

e. Records:

General recordkeeping procedures apply to service organiza-

tions, with some special considerations as follows:

i. Have unit costs (usually hourly) been determined, including overhead and transportation, and have full costs been taken into consideration in establishing prices for service?

ii. Do records provide for determination of the portion of total hours of service labor which is charged to customers?

iii. In motels, nursing homes, etc., has percentage of occupancy necessary to break even been determined and is this factor given adequate attention?

iv. In operations such as restaurants and bars, has the incremental cost per hour been determined and applied in establishing the most economical hours of operation? (Gross revenue per hour can be determined, on a test basis by hourly cash register readings during specified periods.)

CHAPTER III

SCORE-SBA—Workshops

a. Nature of program and SCORE participation:

The SBA has a program of conducting workshops for small business operators and those contemplating going into business, in cooperation with local sponsors, generally colleges or chambers of commerce. Some SCORE chapters have elected to participate in this program by providing the speakers to present the technical subjects and take part in the open discussions. The function of moderator may be handled by the SBA-SCORE coordinator, or by a SCORE member, depending upon circumstances.

b. Make-up of SCORE teams:

The SCORE team participating in the workshop program preferably should be made up three individuals (four if the moderator is included). In order to spread the workload and to have replacements available as needed, it is desirable that two or three teams be formed and that they all become familiar with the workshop material and procedures.

Team members should have some capability in public speaking, although they need not be polished orators. The team ideally should include some diversity of backgrounds, such as marketing, production and finance or accounting.

c. Arrangements:

The arrangements, generally handled by the SBA-SCORE coordinator, will include contacting the sponsors who will provide physical facilities and make provision for lunches and coffee breaks. The sponsor usually will also handle the publicity and registration functions, with such assistance as the coordinator can furnish as to technical information and a list of participants. The coordinator should also arrange to have available appropriate work kits for the registrants as well as visual aids and films which may be available through SBA.

It will be the responsibility of a designated person in the SCORE chapter to contact team members as soon as the date for each workshop is determined and to advise the coordinator who will participate. This person should also verify that travel authorizations have been prepared for team members in those cases in which travel is involved.

d. Preparation and presentation of material:

The text "Keys to Business Success" as prepared by SBA, has been used with considerable success, with each team member presenting the subject matter of three "keys," and all members participating, with the moderator, in the open discussion period.

However, this material is designed for those going into business who have a very low level of business sophistication. It has been found, in some regions at least, that an increasing portion of the registrants in these programs are people who are already in business and have gained some degree of sophistication. Accordingly an outline of technical material on a somewhat higher level has been prepared by some chapters. This material is not a complete text to be read verbatim, but an outline of points to be covered, leaving the detailed presentation to the individual speaker, who may inject examples and personal experiences. This type of presentation has had good acceptance by registrants.

CHAPTER IV

Management-Ability Evaluations

a. Purpose and nature:

In processing applications for loans or loan guarantees, the Financial Assistance Division of SBA generally requires an evaluation of the capabilities of the applicant and the feasibility of the project to be financed, by someone other than the loan officer. Some SCORE chapters are participating in this activity by arranging for SCORE counselors to make these evaluation studies. The purpose of this section is to summarize the procedures required to this function.

The request for evaluation will usually come to the SCORE Chapter office through the SCORE coordinator, together with the evaluation Form 933 and copies of pertinent information submitted by the applicant. In view of the important impact which these reports may have, both on the future of the applicant and on the over-all success of the SBA financial assistance program, it is important that assignment of such cases be made with great care. The counselor assigned should have (a) experience in the specific business involved, or (b) a broad general experience and be accustomed to dealing with various types of business. When assignment has been made, the SCORE office should advise the SBA-SCORE coordinator as to the counselor assigned and the approximate date on which he expects to interview the applicant, inasmuch as the loan officers frequently have telephone calls from applicants, banks or others trying to expedite the approval of the application.

b. Use of Form 933:

Upon accepting the assignment the counselor should review Section I of the form, which will have been filled in by the loan officer, together with other information submitted. It may be desirable in some cases also to review the loan file for additional information which may be available. Applicant should be contacted as soon as possible and arrangements made to meet with him at a mutually convenient time and place. It is preferable to meet at the applicant's place of business, or at the location of the proposed business, if possible, to facilitate inspection of the physical facilities by the counselor. When arranging the interview, the applicant should be asked to have pertinent records and financial data readily available, and it may be advisable to arrange for participation of his accountant or other person who may have assisted in the preparation of the application.

Section II-A through E and Section III-1 through 12 should be answered concisely, based upon direct discussion with the applicant, even though similar information may have been previously

submitted and included in the loan file. The most vital portions of the form are Sections IV and V, in which the conclusions of the counselor should be stated clearly, inasmuch as they will have a significant bearing on the disposition of the application by the loan officer.

c. Basis for recommendations:

Factors to be considered in formulating conclusions and recommendations include:

1. Personality, background, and attitude of applicant.
2. Adequacy of capital, assuming approval of application and reasonableness of debt service requirements, in relation to potential cash flow from business.
3. Suitability of location and physical facilities to purposes of business.
4. Organization (existing or proposed) and capabilities thereof.
5. Reasonableness of financial projections in relation to industry norms and existing conditions.

d. Management assistance plans:

If it is the conclusion of the counselor that the applicant will need additional management assistance over a period of time, details of such requirements should be indicated in Section VI.

Upon completion of the report, it should be returned to the SCORE coordinator for transmission to the loan officer, as soon as possible. Most counselors handling these assignments find it useful to contact the loan officer involved shortly after completion of their report, to discuss any points which may not be clear, and to ascertain disposition of the case.

CHAPTER V

How SCORE Is Organized and Operates

a. National:

Established in 1964, SCORE is a voluntary, non-profit organization of retired businessmen and women who offer their skills, knowledge and experience without a fee to assist small businessmen in solving their operating problems. SCORE is sponsored by the Small Business Administration and the ACTION Agency. The legal relationship of these agencies and SCORE is governed by the grant of authority and power by the Congress to the Agency set forth in Section 8(b) of the Small Business Act (Public Law 85-536, as amended) and the President's Reorganization Plan No. 1 of 1971.

In July, 1971, SCORE became a part of ACTION, the Federal Citizens Service Corps. SBA continues to administer and direct the program; ACTION has responsibility for recruitment, publicity, and new opportunities for volunteer service (see Exhibit IV).

A National SCORE Committee serves as the voice of SCORE and acts in an advisory capacity to SBA and ACTION. It is comprised of one SCORE representative elected by the chapter chairmen from each of the ten SBA regions.

b. Members-At-Large:

In less populated areas or areas where there are insufficient counselors to form a chapter, SCORE members are assigned cases by and report to the nearest SBA or SCORE office.

c. Chapters:

The majority of SCORE members are organized into chapters for more effective operation.

Among the advantages of chapter operation are:

1. Ability to hold monthly chapter meetings for exchange of information between counselors, presentation and discussion of case reports, formation of chapter committees, review of activities, etc. Good fellowship develops. More effective counseling and service to the community results.
2. More effective counseling also results through assignment of cases to members best qualified to counsel in each specified instance.
3. Increased facility for reassignment of cases where one counselor feels another would prove of greater help.
4. Opportunity for formation of teams of counselors to handle more complex cases.
5. Greater facility for field training of new counselors by experienced members.

Exhibit IV

ACTION

SCORE Relationships With ACTION*

ACTION Responsibilities

1. National recruitment—cases, members and encouragement of formation of new SCORE chapters.
2. National publicity re SCORE achievements and availability of SCORE services.
3. Offer of new opportunities for volunteer service.
4. Evaluation of impact of SCORE volunteer services on small business.
5. General budget planning for SCORE program.
6. Liaison with SBA.
7. Coordination of SCORE local programs with other volunteer programs in the same community through information and feedback.
8. Provision of logistical support as feasible.

SCORE Role

1. SCORE volunteer counselors may choose to accept or reject additional opportunities for service, when offered by ACTION.
2. Local community volunteer counselors may choose to form or not to form additional local SCORE chapters.

*SOURCE: Reorganization Plan No. 1 of 1971—Hearings before the Subcommittee on Executive Reorganization and Government Research of the Committee on Government Operations, United States Senate, 92nd Congress, May 5 and 6, 1971, page 392.

6. Physical facilities and support services can be more readily provided (either by SBA, local Chamber of Commerce, local banks, economic development establishment, etc.), including telephone, clerical services, equipment, literature, etc.
7. Better communications between SCORE and SBA and ACTION.

d. Chapter Officers:

The by-laws of most Chapters provide for annual election by the membership of a Chairman, Vice-Chairman and a Secretary/Treasurer. Principal duties of these officers include:

1. Chairman: Coordinate Chapter activities with the SBA and ACTION; general supervision of Chapter operations; presiding at monthly meetings; and, usually, representing the Chapter at national or regional SCORE meetings.
2. Vice-Chairman: Assumes Chairman's responsibilities in the latter's absence; assists Chairman in performance of his duties; assists counselors as needed.
3. Secretary/Treasurer: Advises members of dates of meetings; provides chapter members with minutes of each monthly meeting; follows up on uncompleted cases; handles any special funds contributed by Chapter members, etc.

e. Chapter Committees:

It is the usual practice for the Chapter Chairman to appoint selected members to act as Chairman of various Committees. The Committee Chairmen, in turn, appoint individual Chapter members to serve on their committees. In many chapters this is done by asking for volunteers to serve. The most common Committees are:

1. Evaluation Committee:

   Its primary duty is to review case reports and assist counselors in the preparation of reports. The Committee usually meets monthly. It is recommended that every new SCORE counselor attend a meeting of this committee as early as possible after acceptance.

2. Publicity Committee:

   The growth of any Chapter, both as to the service it renders (case load) and its membership, is largely dependent on the on the amount of and character of publicity given SCORE activities in the Chapter's area. It is the function of the Publicity Committee to develop and carry out plans directed toward this end.

3. Membership Committee:

It is the responsibility of this committee to endeavor to secure qualified new SCORE members.

4. Plans & Program Committee:

Primary purpose of this committee is to plan for and organize activities at monthly Chapter meetings to increase their usefulness to membership.

5. Executive Committee:

In some Chapters, matters requiring policy decisions are discussed by an Executive Committee composed of the Officers and Committee Chairmen of the Chapter plus the SBA Co-ordinator. Meetings of this committee are usually called by the Chapter Chairman when needed.

6. Speakers Bureau:

To conduct necessary outreach through civic clubs and other community organizations in areas where available.

f. Manning the Office:

Score members will be asked from time to time to volunteer for desk duty in the SCORE office. This is one of the most vital functions in SCORE's operation. Among the duties involved are:

1. Handling 'walk-in' interviews and arranging for subsequent counseling if required (see Form #641).
2. Reporting on walk-in cases handled to completion (see Form #218).
3. Making appointments in the SCORE office for other counselors to advise individuals planning to go into business.
4. If requested by the Chairman, assigning counseling requests received (completed Forms #641) to individual counselors. (See assignment of cases below).
5. Answering telephone calls from individuals requesting more information on SCORE services and/or desiring counseling. Making notes of such calls to facilitate transmittal of counseling request forms to the inquirer.
6. Handling such filing and/or clerical functions as may be required or turning such matters over to a secretary for disposition.
7. Receiving counselors' reports on cases. Filing those in which counseling has been completed and where reimbursement for out-of-pocket expense from ACTION is involved sending a copy to ACTION regional office.

8. If requested by Chairman, re-assigning cases at the request of counselors previously assigned to the cases.
9. Verifying that all new counseling cases are recorded in the case register. This log includes name of case, address, phone number, date of request, volunteer assigned, date of assignment, report dates, and date case is closed.
10. Mailing application forms (see #610) to individuals expressing an interest by phone or letter, in become SCORE counselors.

g. Assignment of Cases:

Requests by businessmen for counseling are made by their completing a special form (see Form #641). This application is studied with the aim of matching the problems involved and the nature of the business as closely as possible with the backgrounds and experience of the various counselors available. In some chapters, assignments are made by a formal 'Assignment Committee' meeting with reasonable frequency. In other chapters, to avoid delay, this responsibility is shared by a number of experienced members who function individually on a day to day basis rather than as a formal committee. In some instances, assignments are the responsibility of various chapter officers (particularly the Secretary/Treasurer). For Counselors-At-Large, not members of a Chapter, assignments are made by a member of the SBA staff – usually the Management Assistance Officer (MAO).

No assignments are made without the consent of the counselor. If he agrees to handle the case, both he and the individual requesting counseling are so advised by mail or telephone. The counselor then contacts the businessman and arranges for a time and date to meet at his place of business.

Where the individual requesting counseling does not as yet have a place of business, the usual practice is to arrange for a meeting date at the SCORE office.

h. Special Aids for New Counselors:

In addition to this guide book, a considerable fund of literature is available in the SCORE Chapter and SBA offices. Further, there are several ways in which new counselors can familiarize themselves better with effective counseling procedures. Among these are:

1. Sitting in on a meeting of the Chapter's Evaluation Committee.
2. Attending a SCORE workshop (see Chapter III).

3. Accompanying one or two experienced counselors and observing their counseling methods.

i. Expense reimbursements:

All SCORE counseling is of course on a volunteer basis. No fees may be accepted for such counseling. In general, the client being counseled is expected to reimburse the counselor for any out-of-pocket expense incurred. This includes car mileage, meals and overnight lodging if required. Where the business is located within a 50 mile radius, a standard reimbursement of $5 is permissible and provided for in the application for counseling.

In those cases where the client, in the opinion of the counselor, is not in a financial position to pay for his out-of-pocket expenses, the counselor may apply to the SBA or ACTION for reimbursement, giving complete details as indicated on forms available for this purpose.

i. A Few Other Rules:

SCORE Counselors should not:

1. Simultaneously counsel cases which are in direct competition with each other.
2. Take on functions normally performed by established commercial services such as bookkeeping and accounting firms, lawyers, professional management consultants, etc.
3. Reveal any information obtained during counseling to anyone outside SBA and SCORE without the client's specific consent.
4. Withdraw from or drop an assignment without notifying the the SCORE or SBA office.
5. Accept cases in which there might be a conflict of interest.
6. Charge fees for their services.

APPENDIX

Forms

1.	SBA 115-A	Free Management Assistance Publications
2.	SBA 115-B	For-Sale Booklets
3.	SBA 115-E	Classification of Management Publications
4.	SBA 610	Registration as an SBA Management Assistance Volunteer
5.	SBA 218	Management Assistance Control Record
6.	SBA 641	Request for Counseling
7.	SBA 639	Management Counseling Case Report
8.	SBA 933	Management Ability Evaluation and Management Assistance Plan

Pamphlets

9.	GPO 864-519	Focal Point on Franchising
10.	OPI 15	SBA Bank Participation Loans – Purchase of SBA Loans
11.	OPI 18A	Announcing Business Loans for Veterans
12.	OPI 20	8 (a) Contracting
13.	OPI 18	SBA Business Loans
14.	SMA 71	Checklist for Going into Business
15.	Booklet	How to Read a Financial Report – by Merrill Lynch, Pierce, Fen & Smith, Inc. Any local office.

16. Secure information from your State Office on the following:
    1. Employer Liability under Unemployment Compensation Act.
    2. Registration, Regulations and Requirements for starting a new business in your State.
17. Mr. Businessman's Kit from the Internal Revenue Service on Taxes.
18. Superintendent of Documents, Washington, D. C. 20402
    Ask to be placed on their mailing list.
19. Department of Labor, Washington, D. C. 20210
    Request a free copy of "Want to be your own Boss?"
20. Chamber of Commerce of the United States, Domestic Distribution Department, Washington, D. C. 20230
    Ask for pamphlet, "So you're Going Into Business."
21. National Association of Credit Management, 44 East 23rd Street, New York, N Y 10010
    Ask for free leaflet, "What Do You Mean – More Money?"
22. Institute of Life Insurance, 277 Park Avenue, New York, N Y. 10017
    Ask for Management Aids for Small Manufacturers #130, 131, 132, 133, also "Topic is Insurance."
23. Dun & Bradstreet, 321 N. Milwaukee Street, Milwaukee, Wisconsin 53202
    Ask for "Key Ratios for Small Business," "Credit Reporting, Collection Service" and "How to Build Profits by Control Costs."
24. Trade Associations – The names of these will be found in the Yellow Pages of the telephone book.
25. Encyclopedia of Associations (2 Volumes) Gale Research Co., Book Tower, Chicago, Illinois.

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